Economic
Development
And Trade

Operating a Small Retail Business

Alberta
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OPERATING A SMALL RETAIL BUSINESS

Retailers are located in the heart of Edmonton and Calgary and in the smallest Alberta communities. Wherever they are, however they operate, and whatever they sell, the retail trade plays an important role in Alberta's economy and contributes to the quality of life enjoyed by Albertans.

Retailing is a complex business. It demands skills of salesmanship, accounting, design, purchasing, advertising, and many other attributes. It also requires that a person be prepared to invest a considerable amount of his own money and time to establish the business. In brief, the successful retailer must have the traits of a good manager and entrepreneur.

Since the subject of retailing covers such a wide variety of commodities and types of business operations, this handbook can only attempt to provide some basic retail advice. In an attempt to narrow the subject materials down to a manageable level, this guide is aimed primarily at the small retail store.

As in all businesses, before one actually enters the retail business, time and effort should be spent learning about the business and planning for its successful operation.

This handbook is one of a series of booklets published by Alberta Economic Development and Trade, Small Business and Industry Division. Other booklets that may be useful are:

- Starting a Small Business
- Financing a Small Business
- Marketing for a Small Business
- Operating a Small Manufacturing Business
- Operating a Small Service Business
- Selecting a Small Business Computer System
- Bookkeeping for a Small Business

These publications are available at all Alberta Economic Development and Trade offices listed in the back of this publication.

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CHAPTER ONE

LOCATION

In selecting a retail site, it is important to first work out the objectives and finances of the business and then to find a location that fits them as closely as possible. Some of the factors that may affect a decision on location are:

(1) Capital: Can the business afford the rent and to maintain the premises?
(2) Sales volume: Is the rent in the right proportion to the anticipated sales volume and will the location support this volume?
(3) Kind of store: Will potential customers patronize the type of store proposed for the location?

NEIGHBORHOOD

Carefully consider the market you will depend upon to support your business. Accessibility, visibility and exposure to customers are usually the most important considerations. Is the neighborhood prosperous, or is it becoming rundown? Is the community growing? Are there recent improvements? What are people's ages in the area? An older, established community generally has different shopping needs and tastes than a younger developing area consisting of many families with small children. Similarly, families of low, medium and high incomes generally have different spending habits that could influence the customer acceptance of a store.

Many specialty shops locate where business can be expected. For example, a flower store may choose a site near hospitals, mortuaries or hotels. A sports shop may locate near a golf course or other athletic facility. A gift shop may be better located where tourists congregate, such as at hotels or at special attractions.

DOWNTOWN

When considering a downtown location, there are both advantages and disadvantages to be considered. The availability of potential customers is greater, such as those people working in office buildings or shopping downtown. Therefore, there is better initial exposure to a greater number of people than would normally be the case in locating outside the downtown area. However, one must consider whether this type of person is the target market.

Statistics Canada offers a series of statistics that could assist with locational and other retail problems. Retailers are encouraged to obtain a copy of the handbook "How a Retailer Can Profit from Facts."
Contact: Statistics Canada, User Advisory Services, Hys Centre, Room 215, 11010 - 101 Street, Edmonton, Alberta T5H 4C5, phone 420-3023. Albertans outside Edmonton can phone toll free by dialing 1-800-222-6400.

Some disadvantages in locating downtown are that parking facilities may be limited and heavy vehicular traffic can be a deterrent to shoppers. Stiffer competition can be expected downtown where the large retail stores are located. Higher rentals and operating costs can be expected downtown. If locating downtown, consider whether the area is "alive," or suffering from urban decay. If you intend to be open at night, is there a general oxodus of people from the downtown area after normal working hours? Another consideration about locating downtown is whether shoppers come to the downtown area on Saturdays and other heavy merchandising days, or if they go to regional shopping areas.

SHOPPING MALLS

Many smaller retailers locate in a planned shopping centre because of its built-in traffic. Although rents may be high (rent may include a percentage of gross sales), a shopping centre is ideal for stores that cater to mass demand, such as department stores, popular price specialty stores, variety stores and supermarkets. A store that specializes in a broad distinctive assortment in a narrow line or that provides special services which are not in general demand should beware of locating in a shopping centre. Rather than changing the business to suit the interest of the general purpose buyer in the planned centre, you might find it better to search for a new location that would attract your particular type of customer.

If you are locating in a large city and offering very specialized merchandise that will depend on the total population of the city for support, such as a shop selling clocks only, then being situated in a neighborhood shopping mall might tend to localize the market to your disadvantage. On the other hand, stores offering general sporting goods or shoes could find advantage in concentrating on neighborhood sales in shopping malls.

Shopping malls offer the benefits of accessibility and parking facilities. Major shopping centres are established as a result of considerable market research, both as to the present and future, which should give the prospective retailer a feeling of confidence that there will be considerable traffic. Many shopping centres have pooled advertising for special days, sidewalk sales, etc.

COMPETITION

It is advisable to predetermine the competition that you can expect. How many stores of a similar nature are in the vicinity? Do you believe that you could do a better job in appearance, display and salesmanship than the stores now doing business there? Visit the stores. Get first-hand information and leave nothing to guesswork if possible. For some types of retail business, a good percentage of sales is built on personal contacts so the personalities and aggressiveness of the existing competitive store owners should be assessed. The quality, type and price of their merchandise should

be taken into account. Be sure that the competition will not be so intense that your chances for success will be minimal.

Some retail merchants purposely choose to locate near competing retailers in hopes of attracting more people to a particular centre to shop for certain items. Craft stores and boutique-type stores are good examples of this. As more of these stores concentrate in a certain area, the community gains an enviable reputation and will attract customers from a larger market area. Another reason for locating near a competitor is that if the potential customer does not find what he is looking for at your competition's business, he will come to look for the item at your store.

OTHER CONSIDERATIONS

There are other things to consider when choosing a location. For example, experience shows that on one-way streets, people prefer to shop on the right side of the street (taken from the direction in which the traffic is moving). Is traffic fairly heavy at other than rush hours? Do the pedestrians impress you as being the kind of people who would be good prospects for your store? For instance, a site between a used car lot and a fast food restaurant may not be the best spot to locate a book store! Is there a bus stop nearby? Are the surrounding buildings in good repair? Is the neighborhood safe from vandals? Is there good police and fire protection?

Some retailers point to intuition as another good guide to finding the right site. Every shop owner has a unique service to offer in the way of experience and knowledge. If an individual does not "feel" these assets can be put to good and profitable use in a particular area, he or she should spend more time searching. All hunches should, if possible, be backed concrete data.

WHETHER TO RENT OR PURCHASE FACILITIES

In many cases, retailers have purchased their buildings and have been the recipients of substantial increases in property values. However, generally speaking, most retailers are not in the real estate speculation business and should not purchase property. Some retailers have failed simply because they have had their capital tied up in buildings when it could have been better used in the business itself.

If you do decide to purchase your store building, then keep in mind that if you should want to sell your business, it might be harder to find someone with enough capital to buy both the business and the building.

If you put money into a building of your own, that money should bring you an income just as if you invested it somewhere else. In your accounts, the store should be charged with either rent or interest, maintenance, insurance, depreciation and other

expenses of owning a building. If this point is overlooked, the amount shown as net profit on the business is not, in fact, profit.

If you rent your building, be sure that you will be able to stay in the same location if it proves successful. At the same time, you should be free to move after a reasonable length of time if the location does not prove satisfactory. A short-term lease with option to renew is the best way to take care of both of these possibilities.

Often it is a good idea to have an attorney or real estate person familiar with lease agreements check your lease. He might be helpful in tailoring a fair contract and in making useful suggestions on available options. If you are borrowing money from a lending instituion, the loan officer will probably want to examine the lease.

Before signing a lease be sure to check it thoroughly. Notice details such as:

- Can built-in equipment and fixtures be installed and removed?
- Who takes care of repairs such as plumbing, electrical or air conditioning?
- Who is responsible for maintenance and supplies?
- Who is responsible for alterations?
- Who is responsible for payment of utilities?
- Who is responsible for insurance on the buildings and properties, including liability insurance?
- Can all or any of the property be sublet?
- What is the liability of lease default?
- What are the common area charges?
- Are there any tenant association fees, promotion and/or mandatory advertising fees?

When considering a potential facility, determine if there is room for expansion if business warrants.

CHAPTER TWO

LEGAL OBLIGATIONS AND INSURANCE

The handbook, "Starting a Small Business," distributed at no charge by the Alberta Department of Economic Development and Trade, provides a description of licenses, permits, taxes, and employer responsibilities toward employees for such items as income tax and unemployment insurance deduction.

Nevertheless, the material given below gives a very brief introduction of the legal requirements for retailers.

BUSINESS ORGANIZATION

Sole proprietorships and partnerships must register their business names with Central Registry, 5th Floor, J. E. Brownlee Building, 10365 - 97th Street, Edmonton, Alberta T5J 3W7, telephone: 427-5104.

If you decide to incorporate or become a limited company, contact the Corporate Registry, 8th Floor, J. E. Brownlee Building, 10365 - 97 Street, Edmonton, Alberta T5J 3W7, telephone: 427-2311. In Calgary, 902 J. J. Bowlen Building, 620 - 7th Avenue S.W., Calgary, Alberta T2P 0Y8, telephone: 297-3442.

RETAIL LICENSES

Some retailers require a provincial license to sell. This license is available from Alberta Consumer and Corporate Affairs, Licensing Branch, which has offices in Calgary, Edmonton, Fort McMurray, Lethbridge, Peace River and Red Deer.

Each local government within Alberta has the authority to issue its own business licenses within its jurisdiction. Most cities, towns or municipal districts do license retailers and should be contacted at the outset. In Calgary, contact the City of Calgary Planning Department, and in Edmonton, contact the City's License Branch.

EMPLOYER'S RESPONSIBILITIES

Employers are responsible for collecting Unemployment Insurance, Canada Pension Plan and income tax deductions from their employees and remitting them to Revenue Canada — Taxation.

Employers are also responsible for collecting health insurance premiums and workers' compensation. This aspect is discussed in greater detail in the section below dealing with insurance.

TAXES

For information regarding taxes, contact Revenue Canada — Taxation in Edmonton at 9820 - 107 Street, Edmonton, Alberta T5K 1E8, telephone: 420-3510, or in Calgary at 220 - 4 Avenue S.E., Calgary, Alberta T2G 0L1, or telephone: 292-4101.

IMPORTING

Since the regulations with respect to importing can be complex, it is best to contact Revenue Canada — Customs Operations direct for information. They have offices in Edmonton and Calgary.

INSURANCE

Insurance needs for small retailers vary greatly. It is best to choose an insurance agent or broker familiar with insuring retailers and, in particular, an agent familiar with your type of operation. It could be a wise decision to ask other merchants in your vicinity to recommend an agent.

To guard against serious losses from theft, fire and other misfortunes, retailers need an insurance package designed to meet the store's protection requirements. A basic shopkeeper's plan might include:

- Fire Insurance: Covering damage to the premises, equipment and inventory from fire, explosion, wind, riot or smoke.
- Liability Insurance: Protecting the firm from financial loss due to any claims of bodily injury or property damage sustained by customers or others on the business premises or during business-related activity.
- Crime Coverage: Paying for losses due to vandalism, burglary, robbery and employee dishonesty.
- Fidelity Bonds: Place on employees with access to cash receipts or any other company funds, guaranteeing against loss from embezzlement.
- Automobile Insurance: For both physical damage and liability coverage for company-owned vehicles or cars used on store business.
- Business Owner's Life Insurance: Often partners in a business will purchase life insurance on each other's lives in order that on the dealth of one partner, the other partners will have the funds to purchase the rest of the business from the deceased's estate. Lenders sometimes require that insurance in favor of the lending agency be acquired if a term loan is to be made. Some retailers place insurance on key employees whose death will cause hardship to the store.
- Business Interruption Insurance: Compensating for revenue lost during a temporary halt in business caused by fire, theft or illness.
- Health Care Insurance: Alberta Hospitals and Medical Care provides a health care plan for all citizens of Alberta. The Health Insurance Premiums Act and Regulations state that all employers with five or more eligible employees (owners and partners included) are required to form an "employer group" for payroll deduction medicare premiums. An employer with less than five eligible employees may form a "designated group" on a voluntary basis but, once formed, must abide by the regulations as they apply to an "employer group."

Once a group is in existence, it is the employer's responsibility to cover all eligible employees and make the necessary payroll deductions on a monthly basis. The rates are not reduced for group coverage. The employer is under no obligation to pay a portion of the premium unless he wishes to do so as an employee benefit.

For further information, contact Alberta Hospitals and Medical Care in Edmonton at 10025 Jasper Avenue, Edmonton, Alberta T5J 1S6, telephone: 427-1400 or 2nd Floor, McLaws Building, 407 - 8 Avenue S.W., Calgary, Alberta T2P 1E5, telephone: 297-6411.

- Workers' Compensation Board: Retailers in Alberta are covered by the Workers' Compensation Act. This act provides for the compensation of workers who are injured in the course of their employment.

  To avoid possible penalties, it is important that the employer contact the Worker's Compensation Board in order to open an account within 10 days of the employment of workers.

CHAPTER THREE

EQUIPMENT AND DISPLAY

One of the more important contributing factors towards a store's image is its equipment and layout. According to a survey sponsored by the National Retail Merchants Association, one out of every four sales is made because of the way merchandise is presented in displays.

Merchants who are attempting to build a high class image but do not have sufficient capital to create an opulent store atmosphere could best devote their efforts toward developing a line more appropriate to their resources.

FIXTURES

Fixtures and store equipment should be clean, adequate and up-to-date. In some cases, old fixtures can add to the charm of a store but, in most situations, they look unattractive. If changes are necessary, then consider leasing the equipment you need. This does not tie up capital in equipment that might be put to better use elsewhere. There is a chance that your suppliers can provide fixtures designed to display their lines at nominal cost. If you use them, take care that they fit into you overall scheme, otherwise they will look out of place. Often suppliers will give advice on specific display needs and techniques, especially when doing promotions or installing displays in your store.

Self-service fixtures can be of great help to the retailer. People can shop without having to ask a salesperson to show them merchandise, and there is no barrier between the customers and the goods on the shelf. Goods should be displayed where the customers can handle them. Self-selection fixtures not only save money, they also enchance the display and sale of stock. Fixtures should be set up to stimulate sales and for customer convenience. They should be designed with upper and lower tiers, if possible, to make maximum use of vertical space. Goods should not be placed out of reach or out of sight, too near the floor or too far above the average person's line of vision. The best selling space is located from waist to eye level.

The most practical and economic fixture permits the display of goods in a proper arrangement for each line, with the least distracting elements and maximum exposure. Ask yourself how to get the best possible sales volume per square foot of display. How much merchandise exposure can the fixture give per dollar of fixture expenditure? Bear in mind that a well designed fixture which gives the maximum exposure of goods is less expensive in the long run than a lower-priced fixture which does not allow for an effective display.

FLOOR DISPLAY

Closely tied in with the proper fixtures is the matter of floor selling space. Good displays or proper fixtures lose their eye-catching appeal if they are crowded together. If aisles are small and crowded, shoppers cannot see the goods. Determine what the traffic

pattern should be. What are the best locations for departments if you handle several kinds of goods? What is the best location for a category of goods within the department? Are related merchandise items adjacent?

Arrange fixtures and stock so that the customer is drawn toward the side of the store, and then toward the rear. Attempt to create a circular traffic pattern through the store that will expose the customers to as large an assortment of merchandise as possible before they leave.

In fashion stores, customers should pass impulse goods on their way to inspect items that are continually in demand. In food, gift and variety stores, it is a good idea to intersperse impulse goods with demand items. Avoid locating impulse goods directly across the aisle from demand items. The impulse item may not be seen at all.

Cash registers should be carefully located to reduce the amount of walking that salesclerks will have to do, and to provide control over the selling floor. This speeds the sale, gives salespeople more direct selling time and helps to reduce theft.

Non-selling and office activities should be kept out of valuable selling space. Your business is selling; supporting activities, although they are necessary, should be subordinated. Stock areas should be located as closely as possible to the selling areas they serve. Ideally, reserve stocks should be kept behind the forward stock.

A neat and well laid out stock area facilitates inventory control, saves time and assists with the organization of the store. Receiving, checking and marking of incoming goods should be done elsewhere — not on the selling floor. Not only will the appearance of the store be enhanced, but checking and marking will be much more accurate. Careless checking is a major source of loss and of accepting goods not ordered.

In regard to merchandise display, the following points given by one prominent Alberta retailer are worthy of note:

- More colorful merchandise should receive preference in display.
- Highlight both national and private brands in the floor arrangement and window display.
- In the case of apparel and home furnishings, items that reflect the store's sense of fashion get special display at all times.
- Both advertised and non-advertised specials should be placed at the ends of counters as well as at the point of sale.
- Always consider the productivity of space, vertical as well as horizontal, when locating merchandise.
- Use horizontal space for different items and styles within a category. Vertical space should be used for different sizes; for example, smallest at the top and largest at the bottom.

- Depending upon the type of store, each merchandise category should be grouped under a separate sign.
- Arrange merchandise in each category according to its most significant characteristic — whether color, style, size or price.
- For apparel, attempt to arrange the merchandise by price lines to assist the customer to make a decision quickly.
- Do not overcrowd counters and aisle tables.
- Keep trash bins out of sight.

Many small retailers are victims of procrastination with regard to store modernization. Unattractive fronts, drab windows, dismal interiors and careless displays have an adverse effect upon sales.

COLOR AND INTERIOR SIGNS

Color helps to set a buying mood. Generally, strong contrasts and loud colors should be avoided. Bright shades get attention but they can also overpower the merchandise. Background colors should suit and blend with the display merchandise. If you sell ready-to-wear fashion accessories, home furnishing, etc., there is a special need for careful color planning. Color enhances high fashion and high quality merchandise, and is vital in motivating the shopper to buy.

In experimenting with color, keep in mind that higher-priced merchandise is best displayed in more refined color arrangements, such as blues, greens, grays and blacks. If you are handling low-prices bargain items, the vivid shades of yellow, orange and red combined with whites are best for achieving the right decorative touch.

Signs do the talking for a display. They answer customer's questions about price and features, and indicate where goods are located in a store. The following suggestions may be helpful with regard to signs used in interior displays:

- Make your signs informative. The wording should be compact but descriptive.
- Signs should look professional. Poor printing detracts from a sign.
- Signs should not be soiled or marred. Nothing detracts from merchandise quicker than a soiled sign.
- Keep signs timely by changing them often.

CHAPTER FOUR

CREATING AN IMAGE

Creating an image for your store is probably one of the most important tasks requiring attention. All stores have images and customers have a mental vision where their shopping can be accomplished. This vision is based on previous shopping experience and observation, the experience of friends, advertising and other sources.

Some stores are successful because they have a convenient location. Situated in home neighborhoods, along major traffic arteries or in shopping centres, they get much of their patronage from customers who find it quicker and easier to buy there than to go elsewhere. However, stores that handle specialty goods must develop distinct, favorable characteristics that customers associate with them.

Often a store's management has a different image of the store than its customers do. Sometimes, after a change of management, customers may have been so conditioned by former personality features of the store that they are slow to realize that a change has taken place. The class of customers attracted to a store also affects its image. For example, studies have indicated that although two stores in a small town may offer similar assortments, prices and services, only one has the image of being the finest store in town because that is where the "best people" shop.

Some retailers attempt to discern the image their store has with its customers by conducting polls. One way to keep up with what customers expect is by asking them. However, be careful not to appear to be putting them on the spot by asking uncomfortable questions. If you try to maintain an image for quality service, then you need to know when customers have been disappointed. If you are to build repeat business, customers have to be satisfied with what you offer. They must feel confident that your operation is one that exemplifies honesty and integrity. Ideally, a retailer would be able to confidently answer one question that is in the customer's mind: "Why should I go back to that store?"

Changing your store's image requires thought and planning. Be careful not to offer conflicting images. For example, bargain prices often are not compatible with exclusive merchandise, experimental assortments and extensive services. Attempt to capitalize on a market not being satisfactorily met by your competitors. Carefully choose merchandise that will attract a sizeable group of customers and be sure that your staff is compatible with the image you are attempting to create.

STORE OBJECTIVES

Unless your store is a discount house, it is best not to emphasize the bargain, low-price appeal. Instead, consider selecting two or three features in which you have the capacity to excel, and then place major emphasis on developing them and projecting them throughout the community.

Most small stores cannot afford to carry wide assortments in many lines, so you might be well advised to stock a dominant assortment in a narrow line. For example, a Calgary women's wear shop became known for its assortment of daytime dresses and pantsuits. It had some requests for evening dresses and so it added a rack of them. Customers then asked for handbags, then hosiery and then blouses. Each incomplete line took space and attention away from the formerly dominant line. The shop became a localized women's convenience store — although it had initially shown great promise of becoming a leader in casual, daytime dresses. The message is: do not introduce a new line until you are in a position to develop it in substantial breadth (e.g. designs and makes) and depth (e.g. sizes and colors). In this way, you can build on the reputation of having a wide assortment of related lines.

A few very large stores may be able to cater to nearly everyone but most stores must limit their customer targets to certain segments of the market. To attempt to broaden you store's appeal may mean that your stock may become a collection of odds and ends, where so many services are offered that none are well performed and the store becomes an also-ran to be used only for convenience.

Because shoppers assume a store front reflects what's inside, the building facade should appear fresh and distinctive. A colorful, eye-catching exterior sign helps to provide instant identification and continuous advertising. The sign should be large enough to be easily read from a distance, yet proportionate to the building's size.

When retailers fail to concentrate on encouraging customers to return for further purchases, they neglect their best opportunities for increasing sales. People return to a store because they find that:

- It offers the price and quality they are seeking.
- It is courteous and friendly.
- It offers convenience and ease in shopping.
- Its stock is complete.
- It provides service after the sale

It is wise to set a high premium on courtesy and to conduct campaigns to encourage employees to be considerate of others. Courtesy is especially important at the cash register or checkout counter. There the customer gets a last impression of your store. A friendly and interested reception can aid the store's image.

CHAPTER FIVE

ADVERTISING

Many small businessmen question the value of advertising. What they forget is that advertising can build sales volume at a lower cost per sale than any other method. There is also the practical business axiom that you have to spend money to make money.

The astute businessman reserves a permanent place in his budget for advertising. He knows he cannot afford not to advertise, but with limited funds available he must make every advertising dollar count.

ADVERTISING BUDGET

In order to achieve the best value from advertising, the retailer should plan ahead by developing an advertising budget. The first question to be asked is how much should be spent for advertising. Most retailers plan their advertising budget as a function of total sales. For example, very small stores spend on the average 2.5% of their total sales on advertising; medium-size retailers spend about 3.5% of gross sales; and the very large department stores spend up to 2.5% of their total sales on advertising expenditures. There are many factors that need to be considered in deciding how much to spend. For example:

- The newer the store, the more advertising is required to make it known.
- If a store is in a poor location, advertising is required to attract people to go out of their way to shop there.
- If a store is selling highly promotional merchandise, it needs to spend more on advertising.
- In order for a business to keep its share of the market, expenditues must bear some relationship to what competitors are spending. Aggressive competition usually requires aggresive advertising.
- Merchants operating in large communities must usually spend more for advertising than merchants in small communities.
- Sales days, special promotional events and holidays important to the business require greater expenditures for advertising to make the event known.
- Funds from suppliers for media purchase and an availability of prepared ads or commercials through co-operative advertising allow the merchant to expand his advertising program.

ADVERTISING FREQUENCY

It used to be thought that the small merchant should advertise on a regular basis even though he took only a small space for his message. However, more and more Alberta merchants are relying on massive impact when they have a compelling story to tell by mounting well conceived promotional campaigns rather than using a small repetitive ad. This means a continual search for special promotional goods to supplement your regular stock assortment. Promotional goods need not be limited to seasonal clearances.

Merchandise with unusual fashion and quality interest may be available at the start of the season when the timeliness of the product rather than its price is the important factor.

Advertising expenditures should be emphasized prior to and during the months when gross sales indicate that business is good. When sales figures drop and business conditions are less attractive, the businessman reduces his advertising. Do not waste advertising dollars by pouring money into a lagging season and failing to take advantage of a good season. Sales and advertising should be in proportion.

ADVERTISING PLANNING

It is good practise to prepare an advertising budget by the month and for specific media. For example:

	Gross Sales Last Year	Advertising Last Year (3% of Gross)	Estimated Sales This Year (5% Increase)	Advertising This Year (3% of Gross)
Jan.	$ 6,000	$180	$ 6,300	$189
Feb.	6,500	195	6,825	205
Nov.	12,000	360	12,600	378
Dec.	18,000	540	18,900	567

	Jan.	Feb.	Nov.	Dec.
Total Budget	$189	$205	$378	$567
Handbills	89	—	100	100
Newspaper	100	105	75	300
Radio	—	50	178	50
T.V.	—	—	—	—
Community Affairs	—	25	—	50
Other Contingency	—	25	25	67

MEDIA

The above exercise forces the retailer to plan his promotions ahead, to be prepared to set goals and to act to attain them.

In selecting the media for advertisements, attempt to identify your market audience and then decide the best way to attract their attention. Television is an excellent medium as it reaches a large audience with good results but it is expensive. Newspapers are the number one medium for small businesses, and usually cover the businessman's market area adequately. The cost of newspaper lineage is relatively low and the retailer can personalize his advertising.

Some retailers use "shoppers" which are special, localized newspapers, which carry advertising only for local businesses. Shoppers are usually the least expensive newspaper buys and may have a large circulation aimed directly at the target market. Yellow page advertising in the telephone directory is considered to be another very good method of advertising for specialized items. Direct mail can also be a successful medium. If radio is to be used, then it is best that it be used frequently. Be careful to determine prime listening time.

Another effective method of advertising is to display an outstanding sign at your place of business which will attract local traffic. Other media may also be used such as transit and outdoor billboards, giveaways (pens, calendars), sponsorship of local contests. However, it is wise to remember the most effective advertising is "word of mouth" from satisfied customers.

STORE PROMOTIONS

Store promotions are an important part of effective selling. A promotion is simply an extra selling effort put behind certain types of merchandise, and linked to a particular purpose and timing. For example, there are back-to-school promotions, Easter promotions and January clearance promotions.

The best promotions are built around a specific idea that will draw traffic and increase sales. To be effective, the promotion should be somewhat unique and be dramatically and aggressively carried out.

Promotions give your store an "action image," that of a store alive with fresh ideas and merchandise and attractive buying opportunities.

It is wise to prepare a promotional calendar at least six months in advance. For example:

January	Semi-annual clearance
February	Blouses, nurses' uniforms
March	Spring promotion for new merchandising
May	New camping equipment

The promotional plan should be an integral part of the total advertising plan, that is, it should be part of the interior and window displays and tie in with the direct mail, newspaper ads and other devices. However, a promotion does not merely consist of running an ad.

A caution, however, about your promotional outlays. Be sure that your spending for the promotions does not exceed your budgeted allowance.

WINDOW DISPLAYS

A good window display is one of the best tools you have to promote sales. Customer interviews demonstrate that most

purchasers window shop before entering a store. Too many managers blame the lack of drop-in trade on poor location or the nature of the business instead of a poor window display which does not attract customers.

Plan window displays with the same care you devote to your advertising. Check windows daily for cleanliness. Be sure that the window is well lighted, that the merchandise displayed is timely and attractive. Do not clutter windows and do not show price tags, except to advertise special buys. Try to develop a central theme that will arouse a desire to buy. Change displays often as they are the main traffic stopper, the strongest impulse buying factor.

Attempt to evaluate the effect of your window display by counting the people passing by your window within a certain period, the number of passersby that glance at the window, the number that stop, and the number that enter the store after looking at the window.

COMMUNITY INVOLVEMENT

It can be advantageous for the small retailer to become active in community affairs. By joining groups such as the local Chamber of Commerce or service clubs, two things are accomplished. Firstly, you are promoting your store by gaining recognition as a community orientated merchandiser and, secondly, a means is developed whereby you can directly affect the environment around your store.

Merchants in smaller communities or in shopping malls often co-operate effectively by sponsoring joint promotional events. Each merchant generally agrees to provide certain items for specific sale and to help pay for joint advertisements. The concentration of many special sales, all at the same time, and the use of a great deal of advertising at low cost to individual co-operators, attracts customers from a wide territory and brings in extra business at a modest cost.

However, take care not to depend upon too many loss leaders (taking a loss on some items in order to attract trade). Give good value but at a price that will contribute to profits so that you may immediately gain by the promotion.

Other reasons for retailers associating closely with each other are to share merchandising experience, to learn of credit risks, to take collective action against shoplifters, etc. It is also advisable to subscribe to and regularly read at least one trade paper in your field. Periodicals such as Women's Wear Daily, Progressive Grocer and Drug Topics keep their subscribers ahead of important developments. Many of these trade magazines conduct and report on store and consumer surveys that are of great value in management of selling strategy and control of operations.

CHAPTER SIX

PURCHASING INVENTORY

"Inventory well bought is half sold" is an old axiom in the retail business. A small starting business can ill afford to make any serious mistakes with its inventory. Every dollar invested in inventory should do its share toward returning a full dollar — plus.

Plan your purchases carefully. Cost of goods sold is by far your largest expense, and must be handled well. Stock must be seen in two ways — number of units and dollar value. The higher the price, the fewer the units you can afford for inventory and vice versa. The number of units will determine the breadth of styles and depth of sizes you will be able to offer your customers. As in most business endeavors, the key to success is planning.

STOCK TURNOVER

The number of stock turns has a direct influence on the quantity and balance of your inventory. In calculating your stock turnover, beware of averages. For example, in a men's store, the overall average may show 4 turns a year, but shirts may turn 5.2 times and shoes only 2.2. Also within departments, stock turns may vary considerably. For example, men's dress shirts and casual shirts may have completely different turn rates. This should be reflected in your purchasing policies.

Another point of caution about stock turns is that a low or slow turn of stock is a drag on inventory. Inventory is in stock longer and this ties up cash. Often a low stock turn indicates that a poor buy has been made and the merchandise is not moving as it should. This means top-heavy stocks and consequent markdowns.

On the other hand, a stock turn can be excessively high. It is easy to create a high stock turn. You simply carry minimal stocks (an inadequate breadth and depth of styles and sizes). The fewer items will turn much faster, but this is a short-lived blessing. Many sales are lost and the store gains a reputation for offering little choice or being frequently out of stock on wanted merchandise.

Set up objectives for your stock turns. Subdivide your merchandise into reasonable classifications, and attempt to establish a realistic average for turn rates on each classification. As you pinpoint the stock turn rate of each line or style, you will be able to determine the actual rate of sales and which are the fast sellers and slow sellers. This is important in determining reorders and in deciding whether to continue with lines that are not earning their keep.

Every item in your line should earn its shelf space; that is, it must move at least at its normal stock turn rate and so contribute to

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Statistics Canada tabulates department store monthly stock sales ratios by departments for Canada, Catalogue No. 63-002. This is a good source for determining if your stock turn is over or under the average.

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the store's overall profit. Failure to do this is a common shortcoming of smaller retailers. This is why stock or inventory records are so important to tell you not only what you have in stock but the pace at which each style in stock moves.

BUYING

Your inventory, its size, quality, variety and balance, is simply the result of your buying. It is wise to develop an inventory budget and stick to it.

There are essentially three areas of purchasing. They are the initial buy, reorders and open to buy.

The initial buy is your opening buy on a new style or line. Because of the rapid turnover of styles in today's market, the trend is toward smaller but more frequent orders. This will also protect you somewhat from the "dogs" or slow movers. On the other hand, the size of order does have to be reasonably substantial to launch you into the new selling and to back up your advertising or promotions.

Be careful about overlapping of lines. This is a common pitfall even among experienced retailers. This is caused when inventory dollars are invested in similar styles or duplicating lines, which cannot be justified by sales. The store ends up with excessive or unnecessary inventory that ties up capital, leads to markdowns and a lower stock turn. Further, it costs money to carry this excess baggage.

At the same time, a store should not be understocked. This applies especially to fast-moving merchandise. Unfortunately, it is with the fast selling items that most stores reach an out-of-stock condition. These styles may amount to only about 10 percent of current inventory, but they may account for 25 to 30 percent or more of current sales. Thus, being out of stock on a slow mover may mean the loss of only one sale until the reorder comes in, but during the same time period, the loss of sales on the best seller may amount to from three to five sales.

There is a common tendency among smaller and beginning retailers to overstock their inventories on those items of fringe sizes or with otherwise small appeal. The retailer does this in the belief that his stock will then be equipped to fit all customers, and that he will avoid lost sales because of an out-of-size condition.

This is a costly fallacy. Fringe sizes or items slow down the stock turn rate and frequently end up as markdowns. You must serve your customers within realistic limitations. Inventory should concentrate heavily within the sizes, lines or styles that are most frequently in demand. this is where your turnover and profit are, and where your markdowns are minimized. Accept the fact that you will lose an occasional fringe-size customer. There are stores that specialize in serving these customers.

Remember, a large share of profitable business comes from reorders and size ups. This is proven business based on demonstrated demand by your customers.

It is obvious that your stocks will not and should not remain at the same quantity level each month of the year. Sales records will show peaks and valleys, and purchases must be precisely timed to move with customer buying. This means that stocks must peak just before major customer buying periods, and diminish as demand tapers off. In short, the availability of merchandise must be attuned to periods of high and low demand. Failure to peak or diminish stocks at the right time can seriously affect sales and profits.

Stocks cannot be allowed to age too much. Many smaller and beginning retailers are reluctant to clear out stocks fast enough after seasonal peaks or buying periods have passed. They hold on to the merchandise in the hope that it will sell at regular prices. Soon the stock is outdated and the markdowns are much more severe than if the stock had been cleared out earlier. This out-of-date stock ties up cash needed to buy fresh merchandise. It is vital that a fresh flow of new merchandise be maintained to sustain the buying interests of customers.

OPEN TO BUY

All retailers should plan ahead carefully to determine their purchases. A good merchandise plan maintains inventory levels that relate closely to monthly sales. In this way, a retailer avoids over-or under-buying.

As previously mentioned, "open to buy" is a condition whereby the merchant leaves a portion of the purchase budget to buy additional items as the season progresses. It provides a built-in flexibility to take advantage of current situations.

To control a retail business, a merchant requires good information on how the business is doing. It is essential to know how to plan for gross margin and optimum inventory levels. An adequate gross margin (the difference between sales and the cost of merchandise) must be maintained.

It is advisable to plan a budget for inventory purchases based on sales projections. An example follows:

BUDGET FOR INVENTORY

	Actual Sales Last Year			Planned Sales This Year			Actual Sales This Year		
	SALES	COST	% OF YEAR'S TOTAL	SALES	COST	% OF YEAR'S TOTAL	SALES	COST	% OF YEAR'S TOTAL
January	5,720	2,288	5.2	6,630	2,652	5.6			
February	5,540	2,216	5.1	6,400	2,560	5.4			
March	8,610	3,444	7.9	9,000	3,600	7.7			
Total for Quarter	19,870	7,948	18.2	22,030	8,812	18.7			
April	10,800	4,320	9.9	12,100	4,840	10.3			
May	9,850	3,940	9.0	11,200	4,480	9.5			
June	8,450	3,380	7.7	9,000	3,600	7.7			
Total for Quarter	29,100	11,640	26.6	32,300	12,920	27.5			
July	7,600	3,040	7.0	8,000	3,200	6.8			
August	9,300	3,720	8.5	10,200	4,080	8.7			
September	11,320	4,528	10.3	11,800	4,720	10.0			
Total for Quarter	28,220	11,288	25.8	30,000	12,000	25.5			
October	10,760	4,304	9.8	11,300	4,520	9.6			
November	8,650	3,460	7.9	9,000	3,600	7.6			
December	12,780	5,112	11.7	13,000	5,200	11.1			
Total for Quarter	32,190	12,876	29.4	33,300	13,320	28.3			
Year's Total	109,380	43,752	100%	117,630	47,052	100%			

The problem with planning a merchandise budget is that there must be room to manoeuvre in order to take advantage of current deals. For example, you may find a new line that requires immediate buying action, or you may decide to purchase some promotional items. At the same time, you have to ensure that there are sufficient buying dollars to keep up stocks of staples or best sellers.

The table below shows a method of keeping a running total of buying activity. Use it as a work sheet for each month in the year in much the same way as a cheque register.

OPEN TO BUY (OTB) WORKSHEET

January			February			March			April		
Order Date	Order	OTB Balance	Order Date	Order	OTB Balance	Order Date	Order	OTB Balance	Order Date	Order	OTB Balance
		6,630			6,400			9,000			12,100
12/6/8X	1,000	5,630	12/17/8X	500	5,900						
12/17/8X	1,000	4,630	January	Adjust	5,600						
1/13/8X	3,600	1,030									
1/20/8X	530	500									
1/25/8X	800	(300)									

Simply fill in the planned purchases along the top of the work sheet. The figures used are from the previous table on planning inventory. Note that retail figures are used. Large merchandisers do most of their work in retail; however, you may find it easier to work at cost. Notice that an order was placed December 6, 198X, for $1,000 for delivery in January. This is then deducted from planned purchases to keep a running tally on money left for purchases in the month. Another order for $1,000 was placed December 17 for delivery in January, and also for $500 for delivery in February. The January 13, 20 and 25 orders are deducted from the order to buy balance, and the carryover is extrapolated to the February total.

It is important to recognize that the initial OTB balances are planned and, therefore, need to be changed as the actual sales pattern develops to rough-out the year. Nevertheless the above format provides a guide for keeping control of purchasing money.

SELECTING SUPPLIERS

One major point to keep in mind when choosing suppliers is: do not buy from too many sources. Some of the results of purchasing from many different suppliers are a mixed up inventory, additional and costly bookkeeping, too much time spent with salesmen, and overlapping or duplication of lines. Perhaps worst of all is that your buying budget is spread thin among many suppliers. You are thought of as a fringe account by most, and hence will often receive fringe treatment rather than priority treatment given to more solid accounts.

Do not look on your suppliers solely as sources for merchandise. Ask if they have any retailer assistance programs. What dealer services besides merchandise do they provide, for example, marketing and sales aids, promotional aids, merchandising guidance, national advertising, ad mats, co-

operative advertising, ideas for better store management and so on. The quantity and quality of what they offer should weigh in your decision as to the suppliers with which you will do business.

CHAPTER SEVEN

PRICING

Markups and markdowns are the basis of your pricing system which will, in turn, reflect upon your net profits.

MARKUPS

Markup (also known as markon) is the difference between the cost of the merchandise and its selling price. It can be measured in percent or dollars. Be familiar with the difference between markup at retail and markup at cost. Markup is usually figured on the basis of the retail selling price. The following table shows the equivalent percent for markup at retail and cost.

EQUIVALENCY MARKUP TABLE

MARKUP AT RETAIL		COST
30.0%	=	42.9%
31.0		45.0
32.0		47.1
33.0		49.3
34.0		51.5
35.0		53.9
36.0		56.3
37.0		58.8
38.0		61.3
39.0		64.0
40.0		66.7
41.0		70.0
42.0		72.4
43.0		75.4
44.0		78.5
45.0		81.8
46.0		85.2
47.0		88.7
48.0		92.3
49.0		95.9
50.0		100.0
60.0		150.0

To arrive at a markup at retail, let us assume that you want to sell a pair of socks that cost you \$3.25 at a 40% markup.
The basic markup formula is:

Cost = Retail Price − Markup
Cost = 100% − 40% = 60%

$$\text{Retail Price} = \frac{\text{Dollar Cost}}{\text{Percentage Cost}} = \frac{\$3.25}{60\% \text{ (or .60)}} = \$5.42$$

It is important to figure out your net markup, that is, the real markup after everything associated with the cost price has been shaved away. This includes markdowns, freight charges, selling costs, customer discounts, etc. Thus, you may start out with a 45

percent markup but when the last item of a particular style is cleared, you will find out that some of these items have sold at different prices and that the net markup is only 39 percent on average.

To plan your initial markup, first estimate sales, expenses and reductions. Reductions include markdowns, stock shortages and employee and customer discounts. The target markup is calculated with the assistance of the following formula:

$$\text{Initial Markup Percentage} = \frac{\text{Operating Expenses} + \text{Reductions} + \text{Profits}}{\text{Net Sales} + \text{Reductions}}$$

The following example uses dollar amounts, but estimates can also be used in percentages. If a retailer anticipates $94,000 in sales, $34,000 in expenses and $6,000 in reductions, and if the desired profit is $4,000, then the initial markup will be:

$$\text{Initial Markup Percentage} = \frac{\$34{,}000 + \$6{,}000 + \$4{,}000}{\$94{,}000 + \$6{,}000} = 44\%$$

Thus a 44 percent markup is required on average in order to make the desired profits.

Methods of arriving at a profitable markup vary but the selling price must cover three basic elements:

- Cost of merchandise
- Cost of overhead or operating expense, including the salary of owner-managers
- Net profit

There is no single, magical markup figure as different lines call for their own markups, hence different prices. Higher risk merchandise such as fashion items may require an above average markup. Staple (or low risk) merchandise may require a lower markup. Here again, there is no hard and fast rule. Those items that have a low stock turnover or require more service might also qualify for a higher markup.

Some merchandisers are keenly aware of "value pricing" whereby merchandise is priced on its value to the customer. For example, one Alberta merchant puts a standard 45 percent markup on most of his goods, but for those items strongly in demand or requiring extra services, he puts on a 50 to 55 percent markup. Of course, this is positively reflected in his net profits.

Pricing has to be flexible. For example, if your store develops a strong image for fashion leadership or quality, the markup can be above average — within reason. However, keep the constant presence of your competition well in mind. This is what keeps all prices realistic and honest. Pricing is a sensitive thing. If you overprice, you pay the penalty of seeing your business go to

competitors. If you underprice in an effort to attract more customers, you run the risk of operating a profitless business.

Many businesses have failed because of inadequate pricing policies. The most serious shortcoming in pricing is the failure to figure an initial markup which covers the entire operating cost plus provision for profits. To ensure that an adequate markup is maintained, plan ahead for expenses, markdowns and inventory costs. In order to do this, good records are required. This is why disciplined planning and equally disciplined records are vital to the successful operation of the business.

MARKDOWNS

Markdowns are the biggest single drain on profits. Generally, the last 25 percent of each style or line decides whether money will be made or lost on that style. This is where the value of a maintained markup (goods that continue to sell at regular or ordinary prices) makes itself felt.

However, it is important that you regard a certain percentage of markdowns as normal and necessary. This percentage should be figured into sales, costs and inventory, right from the beginning when stock is fresh. A store may experience some shrinkage or inventory loss, so take this into account with your planned markdowns to maintain the needed profit. Once again, good records are an absolute necessity to plan for these costs when deciding upon a markup figure.

Many retailers, especially smaller or beginning ones, are reluctant to mark down their slow sellers, or they do not mark them down enough to stimulate clearance of these stocks. There is a saying, "The first markdown is the best markdown." This means that the first markdown should not only be big enough to make the merchandise move but also soon enough. The longer the delay, the greater the markdown will have to be.

Therefore, have a firm policy on markdowns, especially avoiding delays. Markdowns have a constructive value. They reduce inventory, free cash, save carrying charges, and create open-to-buy situations for fresh inventory that is more profitable. Never forget — the longer merchandise stays on shelves the more it will cost and the less it is worth.

Markdowns are usually cleared by strongly advertised post season markdown or clearance sales. Some stores set aside a special corner or section of a display unit as a continuing markdown plan. These areas should be well lighted and attractive to draw customers to them.

Be careful of excessive markdowns. when markdowns are greater then normal, a blow is dealt to profits and also to the quality of the inventory itself. Establish the amount of markdowns you can handle with the knowledge that anything beyond that means trouble.

Retailers throughout Alberta have volunteered the following information regarding the main causes of markdowns, but most agreed that markdowns are caused by mistakes in buying rather than selling:

- Too many similar styles in stock leading to duplication or overlapping of lines.
- Lack of planning before buying.
- Failure to keep pace with style changes; caused by being too slow or having a wait-and-see attitude.
- Too many fringe sizes instead of concentrating on the common sizes. Not enough depth in the best selling sizes soon leaves holes in the stock and leads to markdowns.
- Too many fringe styles. This is usually in an effort to have a little of everything in the hope of being able to please everyone. All this accomplishes is to thin out inventory.
- Inadequate record keeping which leads to a loss of control over stock.
- Delay in taking markdowns. this simply deepens and makes the markdown condition of the stock worse.
- Failure of salespeople to give enough attention to slow moving items, or concentration on only the fresh merchandise.
- Shallow buying which quickly leads to thinned out stocks that must inevitably become markdown stock.
- Late buying and late deliveries and, therefore, a late start in selling, especially in the case of fashion merchandise.

A store does not necessarily make the best profit by putting the highest possible price on the merchandise. Some merchandise can be deliberately priced a little below average to attract customers which may increase profits in the long run. Beware of cutting prices too much as it will require considerable volume to compensate for loss of profits. The following table demonstrates the amount of increased volume required to make up for dropping prices:

PRESENT GROSS PROFIT

	5%	10%	15%	20%	25%	30%	35%	40%
1%	25.0%	11.1%	7.1%	5.3%	4.2%	3.4%	2.9%	2.6%
2	66.6	25.0	15.4	11.1	8.7	7.1	6.1	5.3
3	150.0	42.8	25.0	17.6	13.6	11.1	9.4	8.1
4	400.0	66.6	36.4	25.0	19.0	15.4	12.9	11.1
5		100.0	50.0	33.3	25.0	20.0	16.7	14.3
6		150.0	66.7	42.9	31.6	25.0	20.7	17.6
7		233.3	87.5	53.8	38.9	30.4	25.0	21.2
8		400.0	114.3	66.7	47.1	36.4	29.6	25.0
9		1000.0	150.0	81.8	56.3	42.9	34.6	29.0
10			200.0	100.0	66.7	50.0	40.0	33.3
11			275.0	122.2	78.6	57.9	45.8	37.9
12			400.0	150.0	92.3	66.7	52.2	42.9
13			650.0	185.7	108.3	76.5	59.1	48.1
14			1400.0	233.3	127.3	87.5	66.7	53.8
15				300.0	150.0	100.0	75.0	60.0
16				400.0	177.8	114.3	84.2	66.7
17				566.7	212.5	130.8	94.4	73.9
18				900.0	257.1	150.0	105.9	81.8
19				1900.0	316.7	172.7	118.8	90.5
20					400.0	200.0	133.3	100.0
21					525.0	233.3	150.0	110.5
22					733.3	275.0	169.2	122.2
23					1115.0	328.6	191.7	135.3
24					2400.0	400.0	218.2	150.0
25						500.0	250.0	166.7

Example: Your present gross margin is 25% and you cut your selling price 10%. Locate 10% in the left-hand column. Now follow across to the column headed 25%. You find you will need to sell 66.7% **more** units to earn the same margin dollars as at the previous price.

OTHER PRICING CONSIDERATION

There are many factors to consider when adopting a pricing policy. For example, will a one-price system be used whereby the same price is charged every purchaser of a particular item? The alternative is to negotiate price with consumers. Will odd-ending prices, such as $2.98 and $39.95 be more appealing to your customers than even-ending prices? Will consumers buy more if multiple pricing, such as two for $10.75, is used?

Some merchants use price lining as a means to facilitate sales. By this method, distinct price points (such as $5.00, $7.50 and $10.00) or price zones (such as $5.00 - $7.50, $11.50 - $14.00, and $19.50 - $23.00) are chosen, then all related merchandise is marked accordingly. This method can lead to increased margins, and it assists the customer in choosing merchandise.

Another pricing mechanism to attract sales is to offer loss leaders. Selected products are offered at low, less profitable prices in the hope that customers will also buy other more profitable items at the same time. Ordinarily a loss leader offering needs the following characteristics to accomplish its purpose of generating increased shopper traffic: the item should be used by most people, bought frequently, have a familiar regular price, and not be a large expenditure for consumers.

Pricing is one of the most important jobs of a retailer. It requires good thought and planning. A retailer's price influences the quantities of various items that consumers will buy which, in turn, affects total revenue and profit. Therefore, correct pricing decisions are a key to successful retail management.

CHAPTER EIGHT

FINANCING

Alberta Economic Development and Trade has prepared another handbook in this series entitled "Financing a Small Business." It provides a guide on how to arrange proper financing for a business in Alberta and is available free upon request. Nevertheless, since financing is such an important aspect of retailing, it would be appropriate to discuss it briefly here.

To arrange financing for a retail business can be a difficult task, especially at the outset. The major problem is that retail stores require large amounts of unsold inventory but banks and other commercial lending institutions prefer not to use merchandise such as clothing, toys, etc. as security. This is because in case of business failure, and the banks have to foreclose to protect their loan, they generally have to heavily discount the merchandise in order to turn it into cash.

In rare instances, inventory will be financed by lending institutions up to 65 percent of the value of the inventory. When inventory advances are made, there usually is a ready market for the goods in question. They should not be perishable or subject to early obsolescence. However, in most cases of inventory financing, good rapport has been established over a period of time between the lender and the borrower.

When starting a retailing business, there are some cardinal rules of financing that should be observed. Firstly, a new business usually does well to minimize its fixed capital outlays to the greatest extent possible. For example, rent real estate rather than buy it, and see if it is possible to lease equipment instead of purchasing it. Although this policy may appear more expensive over the long run, it means that the business will have more money available for current expenses and purchasing inventory. Money used for working capital can normally be recaptured quickly through inventory turnover, but money sunk in fixed capital assets is harder to retrieve. Therefore, consider financing fixed expenses, such as leasehold improvements, cash registers and motor vehicles, thereby leaving your cash resources available for current operating expenses and/or inventory purchases.

Plan your financing requirements well ahead. It is important to approach your banker early. A lender does not want to be approached at the last minute with a crisis situation such as a payroll you are unable to meet. Also be prepared when you go for a loan. Present your banker with a written plan describing your intentions and business prospects. Prepare a cash flow or budget (as described in the handbook "Financing a Small Business") which demonstrates your business's ability to service debt.

Demonstrate to your banker that you have the business well under control. Keep your banker informed on any significant developments of your business. Provide financial data regularly to him. When a problem occurs, often reasonable solutions can be found if the businessman puts forward an honest front with a plan

to tackle it. It is to your advantage to develop a good relationship with your banker.

You will find it advisable to ask business acquaintances about the bank they use. It is important to deal with a banker who will be interested in your business and will sympathize with your aspirations. There are many sources of financing a business in Alberta. Building your business on a sound financial base is one of a retailer's most important jobs.

CHAPTER NINE

BUSINESS RECORDS

By keeping orderly business records, the manager of a retail business is able to monitor the health of the business and to control its future. Good records allow the businessman to know the position of the business on a day-to-day basis and to actively manage his store. They also point out potential weaknesses in the business so that the manager can take the necessary corrective action. Records supply the data required for effective planning.

It is advisable to establish a relationship with an outside accountant or bookkeeper to assist in setting up your books. An accountant is usually called upon to prepare the business's annual financial statements and is in a good position to offer business advice. However, the businessman should know how to take care of the records and to be able to extract information from them to improve the business.

There are many different systems of record keeping, but the one central theme is that the books should provide information that is essential and useful, but not overwhelming in volume or detail. Many Alberta retailers have developed their own bookkeeping systems peculiar to their own enterprises.

For retail stores, records should at least consist of the following basic elements:

(1) A record of all monetary transactions, that is all money coming in and all money going out;
(2) A record of petty cash and daily bank deposits;
(3) A record of each credit customer's account;
(4) A record of expenses and accounts payable;
(5) A record of equipment and depreciation;
(6) A record of inventory.

BOOKKEEPING

Bookkeeping is simply defined as the recording of business transactions in a general ledger and journals.

Entering this information daily really is not that complicated and time consuming. The time spent is well worthwhile for it provides good control of: sales, cash receipts/disbursements, accounts receivable/payable and expenses.

To assist you in developing a simple and efficient bookkeeping system, Alberta Economic Development and Trade, Small Business and Industry Division, provides the handbook "Bookkeeping for a Small Business". Call your nearest office of Alberta Economic Development and Trade for assistance.

DEPARTMENTALIZING

A retailer that sells different types of merchandise with varying gross margins and rates of turnover may find it more informative and efficient to organize his records by department. For example, a men's wear business could departmentalize by dividing

shirts, suits, accessories, etc., into different departments. Money coming in and going out may be entered in a departmental purchases and sales record as the basis of monthly departmental operating statements. This method will show which departments are the most profitable, as well as giving better control over purchasing, inventory, and emphasis on merchandising. Retail consultants suggest that departmentalizing a store for control purposes is one of the most important moves a merchant can make.

INVENTORY MANAGEMENT

Since a large part of a retailer's capital is tied up in inventory, and since profits depend upon inventory turnover, it is important to keep control of stock. There are several methods to keep record of inventory, but for the purpose of this handbook only the physical inventory check and the gross margin will be discussed.

The physical inventory check is the only way to accurately determine merchandise on hand. To perform a physical inventory, simply list the quantity and value — at cost and retail price — of every item on the shelves and in storage. Care must be taken that goods received after the close-off date be marked so as not to be included in the inventory count.

In between physical counts, inventory can be estimated by the gross margin method. By this method, the store's usual gross margin percentage is used to figure a cost of goods amount. This figure is subtracted from the goods available for sale to arrive at an estimate of current inventory at the end of the period.

For example, let's say that the store's sales for one month totalled $15,000, that inventory at the beginning of the month was $9,000 (cost), and that purchases during the month amounted to $11,000 (cost). Assume the store's usual gross margin is 35 percent of sales. To estimate the month's ending inventory, the following formula is used:

Beginning Inventory	$ 9,000	
Merchandise Purchased	11,000	
Merchandise Available for sale		$20,000
Estimated Gross Margin	35%	
Cost of Sales (100-35)	65%	
Sales for the month	$15,000	
Cost of Goods Sold		
(65% of $15,000)		−9,750
Ending Inventory		$10,250

When margin percentages vary between departments within a store, each department's inventory should be calculated separately.

This method could be used to help provide monthly income statements.

Many stores in Alberta have fairly sophisticated cash registers that can assist in inventory control. By this method the merchandise is divided into workable, coded sections. When the retailer rings up a sale on the register, he also punches in other information including the code of the merchandise, cash or charge, and markdowns. When purchases of stock are made, this is also entered into the register according to the code and amount of the inventory.

Some cash register are then able to give back beginning and ending inventory figures as well as turnover for that time period. This can also be done by classification (or department).

A single monthly report tells the retailer little. However, over a longer period, a series of reports can give him a clear picture of where he is making money and provide him with accurate information to help him make better buying and selling decisions.

ACCOUNTS RECEIVABLE

Care should be taken when granting credit as there could be considerable costs involved. Not only is there the cost of bad debts, but there are expenses in setting up a credit system to do with bookkeeping, billing, credit investigation and collections. Many Alberta retailers find it easier and more economical to accept bank credit cards, such as VISA or MasterCard. Billing and collection activities are handled by the bank in return for a nominal discount, and cash is received for sales as soon as the sales draft is deposited.

For those retailers that handle their own credit accounts, a firm policy should be decided upon in regard to who is allowed to obtain credit, what the terms are, and how past-due accounts are to be followed up. It is wise to remember that slow paying accounts tie up working cash. Also, people that owe your store money may shop elsewhere rather than go to your store, and face a possible demand for payment on past purchases. Therefore, granting credit may prevent or diminish further sales to the slow-paying customer, and may lead to bad debt losses.

No matter how careful the retailer is in extending credit, sooner or later bad debt losses will occur. If your credit granting policy is too strict, however, it may lead to a loss of potential sales.

Bad debt ratios are calculated as follows:

$$\frac{\text{Bad Debts}}{\text{Total Credit Sales}} = \text{Bad Debt Percentage}$$

This ratio should not exceed 2 percent, and slow accounts need to be immediately dealt with when overdue. The older a receivable becomes the more difficult it is to collect. Eventually, after a certain point, it will have to be written off as uncollectable.

A simple system of aging accounts receivable should be devised that lists each account and its position. The aging process should be undertaken at least three or four times a year, and more often for a business with a large volume of accounts. An example of a written accounts receivable aging system is given below:

AGING ACCOUNTS RECEIVABLE

Customer	Total	Current	30 - 60 days	60 - 90 days	3 - 6 mos.	6 -12 mos.	Over 1 Year
Applebee	400	350	50				
Bano	300	300					
Catfish	600	400	100	100			
Xavier	575	225	100	250			
Young	410					200	210
Zale	900	400	450	50			
Total	3,185	1,675	700	400		200	210
Percent	100%	52.6%	22%	12.6%		6.2%	6.6%

Note: The above names and cases are fictitious. They have been used for the purpose of illustration.

CHAPTER TEN

PERSONNEL

Small firms generally enjoy a good reputation for employer/employee relationships. Nevertheless, obtaining and keeping employees has to be one of the more crucial elements of any business. Good employees can be a firm's greatest asset. In a small retail business, sales are directly related to how well customers get along with employees, and how well employees anticipate and serve customers' needs. Employee attitudes, appearance and ability can make or break a retail business. Employees can be the biggest single expense of doing business, and therefore deserve attention.

NEW EMPLOYEES

The retailer should first carefully consider the need for a new employee. The excuse that "You can't get out to lunch if you're by yourself" is hardly sufficient to warrant hiring additional staff. An employee is much more than lunch-hour relief. Sometimes there is another way to accomplish a job that is just as efficient and more economical than adding someone to the payroll. A retailer should be aware of the increased costs of hiring a new employee (this includes fringe benefits as well as salary). There are also administrative expenses involved in meeting payrolls, keeping records, and even the time and dollar costs of finding and interviewing potential employees.

Job specifications, including a written description of each job, should be used in selecting personnel, in training those selected, in preparing them for promotion, and in keeping their salaries and wages balanced to the degree of responsibility and skill you require of them.

An example of a job description could be:

Retail Salesperson

Duties:	Greets and waits on customers; acquires and communicates product knowledge; records sales and provides accurate change; wraps for shipping and bags items; keeps shelves stocked and organized; directs deliveries; responsible for opening and closing store when manager is away.
Responsible to:	Store manager
Requirements:	Applicants must be bondable; have good mathematical skills; have previous sales experience; be available to work nights and week ends; be able to learn the use of cash register and other store procedures.
Personal:	Must have an easy manner with people; dress and be groomed appropriately; be punctual and reliable; and be able to withstand long hours on the floor.

In carrying out the duties of his job, each employee should take orders from and be under the direct supervision of only one

person in order to avoid the conflicts of divided responsibility. Setting down on paper the functions and lines of authority of employees will assist each employee to understand his responsibility and the relationship of his work to that of others in the business.

WAGES AND COMMISSIONS

Wage and salary scales should be competitive with local firms and be adjusted to the difficulties and responsibilities of each job within the firm. The bulk of the retail salesperson's earnings should come from a base salary. For incentive purposes, it can be helpful to supplement the base salary with a small commission. Whatever plan you use, each employee should understand it clearly.

Some of the ways commissions and bonuses can be determined are:

(1) The minimum sales quota can be varied by the month. In February, for example, when sales are usually slow, the quota should be lower than in December when business is good. The salesman earns his commissions on those sales that exceed the minimum quota.
(2) A group commission can be based on the total sales of the store or department and divided equally among all the fulltime employees. The group commission encourages the employees to work as a team, and helps prevent jealousy among them.
(3) "P.M." or "push money" may be a set amount whenever sales of specified items (perhaps slow-moving or high-priced goods that require extra sales effort) are made.
(4) Annual bonuses in the form of cash or merchandise are given in many small companies, often at Christmas. This can amount to an informal profit-sharing program whereby the cash bonus is figured as a percentage of company profits for the year.
(5) A straight commission may be paid instead of a guaranteed salary.

Some determinants in setting salary levels are: the minimum wage, union scales, salaries for similar jobs in the area, the applicant's previous salary and experience, and his potential to add to company profits.

Employee discounts provide another incentive. Discounts on store merchandise are usually 15% to 20% on items he buys for himself. A lower discount may apply when the purchase is a gift or when it is made by a part-time employee. Higher discounts can be given to managers or buyers. Discounts in a gift or apparel store encourage employees to buy clothes or jewelry that they can "model" while they work.

One of the major assets employees seek from any job is reasonable security. Be sure to encourage and be responsible to

your staff. To assist in this regard, it might be advisable to institute a pension plan for your employees. A store's small size is no longer a barrier to the introduction of such plans through a reputable insurance agency. Building even a small permanent staff today demands inclusion of such employee benefits.

The role of employer calls for authority, imagination, tact and patience. The employer should approach all problems directly and openly. When personality conflicts exist between employees, the employer must deal with the situation promptly and in a non-partisan manner. An employer should recognize that people are motivated differently. Some employees thrive on being given additional responsibilities; others may fall apart. Some employees need constant encouragement and praise for work well done; others don't.

If being a personnel manager is one of the independent businessman's major problems, it is also one that will bring him some of his most gratifying rewards. Helping his employees develop their full potential has its own satisfactions, as well as making a solid contribution to the success of the business.

Note: The handbook "Starting a Small Business" published by Alberta Department of Economic Development and Trade, Small Business and Industry Division, outlines in detail all the employer's legal responsibilities towards employees. This includes payroll deductions, minimum wages, union regulations, etc. The section on insurance in this handbook discusses health care insurance regulations and workers' compensation.

CHAPTER ELEVEN

COMMON MISTAKES OF SMALL RETAILERS

Many smaller, independent merchants tend to make mistakes that fall into a common pattern. Generally, these mistakes are caused by laxity. Here are some of the major retailing trouble spots identified by Alberta merchants.

- **Inadequate Lighting** — This can apply to windows or interiors or both. The result is a dismal and drab atmosphere that dulls customer attraction and conveys a shabby look that reflects upon the store.
- **Inconsistency of Advertising** — A surprising number of smaller merchants operate with little or no advertising budget or expenditure, or when ads do run, they are inconsistent, spur-of-the-moment, often poorly executed and ineffectual in results. This leads to the false conclusion that advertising does not pay.
- **Infrequency of Window Changes** — With the exception of two or three major seasonal openings, window changes are erratic and infrequent, despite the fact that windows are the main traffic stopper and the strongest impulse-buying factor. It helps to be imaginative in designing window displays.
- **Failure to Use Interior Displays** — Bright and attractive interior displays invite impulse buying. Have merchandise easy to see and to reach.
- **Inadequate Inventory Control** — One of the major problems; once recorded controls are lost or out of hand, chaos can and often does set in. This can lead to doing business with broken stock that leads to inevitable markdowns and shared profits. It is vital that merchants use an inventory control system in disciplined form.
- **Planned Calendar of Operations** — Very few retailers plan a six month, much less an annual, calendar of operations involving promotions, merchandising ideas, inventory, etc. Rather, the business is reduced to a day-by-day and week-by-week operation.
- **Failure to Control Operating Costs** — Every dollar added to costs is a dollar taken from profits. Many smaller merchants fail to keep a good check on each of their operating costs.
- **Store Image** — Too many smaller retailers regard "store image" as a nebulous idea, yet these same merchants will accept the concept of "reputation". Actually there is little difference, except that "store image" is something you deliberately design, develop and establish.
- **Inadequate Record Keeping** — This is one of the prime sins of omission of many smaller merchants; the accounting records should provide a vast fund of valuable guidance on what is selling, prices, trends, costs, profits, turnovers, etc.
- **Delay in Taking Markdowns** — The smaller retailers tend to linger too long before clearance on slow sellers. Earlier clearances bring smaller losses — and new cash with which to start afresh. Markdowns should be used as a promotional tool, and not solely as a clearance device.

- **Lack of Planned Promotions** — The planned promotion is a vital organ of a successful retail business today. It is advisable to supplement your routine, day-by-day selling operations with special promotions. A successful promotion is a total package of efforts — ads, displays, mailings, gimmicks and fanfare. It is a program.
- **Failure to Take Discounts or Take Advantage of Co-Operative Advertising** — The losses from failure to take discounts or to cash in on co-operative advertising are losses from net profit.
- **Keeping Alert to Industry Trends** — All business may be local, but all local businesses are eventually affected by national trends. National trends eventually converge upon the local scene and bear important influence.
- **Duplication in Buying** — Commonly seen is the wasteful overlapping of similar and competitive lines. This "spread buying" is an effort to be covered in everything, but at the sacrifice of depth in anything. This leads to costly markdowns.
- **Poor Sizing Up** — The absence of disciplinary system or policy in filling missing sizes or items quickly and methodically.
- **Laxity in Store Modernization** — Unattractive fronts, dismal interiors and careless displays will inevitably point to an unsuccessful operation.
- **Employee Turnover** — Employee turnover can be an expensive and harmful ongoing problem with retailing. Attention needs to be paid to developing and maintaining an experienced and satisfied staff that can be depended upon.
- **Failure to Comparison Shop** — Comparison shopping is a "must" in planning advertising as well as merchandising. A store's reputation for good value is harmed if it advertises as a bargain what others are selling at a lower price.
- **Failure to Recognize the Market** — Few stores, usually the largest, can serve everybody. Small stores are more effective in catering to distinct groups, such as customers having special tastes or interests, nearby householders, nearby business people. Less inventory is required when customer appeal is to select groups, advertising becomes easier and more effective, and personnel problems are reduced by specialization.
- **Credit** — The number of businesses that have failed because of offering credit to customers unwisely is legendary. Be impersonal when granting credit, do not let friendship or the prospects of a good sale blind you to the problems of collection. Follow up quickly when customers do not make payments as agreed. Review your accounts periodically to determine their status. Establish a cheque cashing policy.

APPENDIX

PROVINCIAL AUTHORITIES

Alberta Hospitals and Medical Care 10025 Jasper Avenue Edmonton, Alberta T5J 1S6 Ph. 427-1400	2nd Floor, McLaws Building 407 - 8th Avenue S.W. Calgary, Alberta T2P 1E5 Ph. 297-6411
Apprenticeship Branch & Trade Certification Alberta Career Development and Employment 10926 - 119 Street Edmonton, Alberta T5H 3P5 Ph. 427-3722	4th Floor 1015 Centre Street N.W. Calgary, Alberta T2E 2P8 Ph. 297-6457
Labour Relations Board #503, 10808 - 99 Avenue Edmonton, Alberta T5K 0G5 Ph. 427-8547	Tower #3 1212 - 31 Avenue N.E. Calgary, Alberta T2E 7S8 Ph. 297-4333
Central Registry Department of the Attorney General 5th Floor, J.E. Brownlee Building 10365 - 97 Street Edmonton, Alberta T5J 3W7 Ph. 427-5104	3rd Floor, J.J. Bowlen Building 620 - 7th Avenue S.W. Calgary, Alberta T2P 0Y8 Ph. 297-6257
Corporate Registry Alberta Consumer & Corporate Affairs 8th Floor, J. E. Brownlee Building 10365 - 97 Street Edmonton, Alberta T5J 3W7 Ph. 427-2311	902 J.J. Bowlen Building 620 - 7th Avenue S.W. Calgary, Alberta T2P 0Y8 Ph. 297-3442
General Safety Services Division Alberta Labour #805, 10808 - 99 Avenue Edmonton, Alberta T5K 0G2 Ph. 427-3680	2nd Floor, 1212 - 31 Avenue N.E. Calgary, Alberta T2E 7S8 Ph. 297-5753
Employment Standards Branch Alberta Labour Room #403, 10339 - 124 Street Edmonton, Alberta T5N 3W1 Ph. 427-3731	Deerfoot Junction Tower #3, Room 3300 1212 - 31 Avenue N.E. Calgary, Alberta T2E 7S8 Ph. 297-4339
Workers' Compensation Board Box 2415, 9912 - 107 Street Edmonton, Alberta T5J 2S5 Ph. 427-1100	132 - 16th Avenue N.E. Calgary, Alberta T2E 1J5 Ph. 297-3460

FEDERAL AUTHORITIES

Packaging Weights and Measures	Department of Consumer & Corporate Affairs 10225 - 100 Avenue Edmonton, Alberta T5J 0A1 Ph. 420-2491	2919 - 5th Avenue N.E. Calgary, Alberta T2A 6T8 Ph. 292-5605
Copyrights Industrial Designs Patents	Commissioner of Patents Department of Consumer & Corporate Affairs Ottawa-Hull, Canada K1A 0C9 Ph. 997-1936	
	Registrar of Trademarks Department of Consumer & Corporate Affairs Ottawa-Hull, Canada K1A 0C9 Ph. 997-1420	
Export Assistance Foreign Investment Review Board	Department of Regional Industrial Expansion 505 Cornerpoint Building 10179 - 105 Street Edmonton, Alberta T5J 3S3 Ph. 420-2944	Station M #630, 220 - 4th Avenue S.E. Calgary, Alberta T2P 3C3 Ph. 292-4575
Business Information	Business Information Centre c/o Federal Business Development Bank 606 Principal Plaza 10303 Jasper Avenue Edmonton, Alberta T5T 3N6 Ph. 420-2952	
Employment	Canada Employment & Immigration Commission 10704 - 102 Avenue Edmonton, Alberta T5J 0G2 Ph. 420-2207	Harry Hays Building 220 - 4th Avenue S.E. P.O. Box 2530, Stn. M Calgary, Alberta T2P 2T7 Ph. 292-4020
	Labour Canada 3rd Floor, Energy Square 10109 - 106 Street Edmonton, Alberta T5J 3L7 Ph. 420-2993	Harry Hays Building 220 - 4th Avenue S.E. P.O. Box 2800, Station M Calgary, Alberta T2P 3C2 Ph. 292-4566
Immigration	Canada Employment & Immigration Commission Room 200, Liberty Building 10506 Jasper Avenue Edmonton, Alberta T5J 2W9 Ph. 420-2100	Rm. 452, Harry Hays Building 220 - 4th Avenue S.E. P.O. Box 2913, Stn. M Calgary, Alberta T2P 3C3 Ph. 292-5724

Income tax source deductions	Revenue Canada — Taxation 9820 - 107 Street Edmonton, Alberta T5K 1E8 Ph. 420-3510	Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2G 0L1 Ph. 292-4101
Sales and Excise Tax	Revenue Canada — Taxation District Excise Office #610, 10055 - 106 Street Edmonton, Alberta T5J 2Y2 Ph. 420-3420	P.O. Box 2525, Station M Calgary, Alberta T2P 3B7 Ph. 292-5678
Customs	Revenue Canada — Taxation Customs Operations Room 312 10709 Jasper Avenue Edmonton, Alberta T5J 4A6 Ph. 420-3403	Harry Hays Building 220 - 4th Avenue S.E. Box 2970 Calgary, Alberta T2P 2M7 Ph. 292-4610
Unemployment Insurance	Unemployment Insurance Commission 10704 - 102 Avenue Edmonton, Alberta T5J 0G2 Ph. 420-2207	Harry Hays Building 220 - 4th Avenue S.E. P.O. Box 2530, Stn. M Calgary, Alberta T2P 2T7 Ph. 292-4020

ECONOMIC DEVELOPMENT AND TRADE OFFICES

HEAD OFFICE	12th Floor, Sterling Place 9940 - 106 Street Edmonton, Alberta T5K 2P6 Ph. 427-0669
SMALL BUSINESS AND INDUSTRY DIVISION	6th Floor 9940 - 106 Street Edmonton, Alberta T5K 2P6 Ph. 427-3685
CALGARY	5th Floor 999 - 8 Street S.W. Calgary, Alberta T2R 1J5 Ph. 297-6284
CAMROSE	4909 - 48 Street Camrose, Alberta T4V 1L7 Ph. 679-1235
EDSON	Bag 9000 Provincial Building 111 - 54 Street Edson, Alberta T0E 0P0 Ph. 723-8229
GRANDE PRAIRIE	Room 1401 Provincial Building 10320 - 99 Street Grande Prairie, Alberta T8V 6J4 Ph. 538-5230
LETHBRIDGE	Room 249 Provincial Building 200 - 5 Avenue S. Lethbridge, Alberta T1J 4C7 Ph. 381-5414
MEDICINE HAT	Room 217 Provincial Building 770 - 6 Street S.W. Medicine Hat, Alberta T1A 4J6 Ph. 529-3630
PEACE RIVER	Bag 900, Box 3 10122 - 100 Street River Drive Mall Peace River, Alberta T0H 2X0 Ph. 624-6113

RED DEER	3rd Floor Provincial Building 4920 - 51 Street Red Deer, Alberta T4N 6K8 Ph. 340-5300
ST. PAUL	P.O. Box 1688 Room 409 Provincial Building 5025 - 49 Avenue St. Paul, Alberta T0A 3A0 Ph. 645-6358

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